

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

March 13, 2006



The meeting was called to order at approximately 9:15 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Philip Angelides, represented by John Hiber
Marjorie Berte
Robert F. Carlson
Rob Feckner
Priya Mathur
Michael Navarro
Tony Oliveira
Mike Quevedo, Jr.
Kurato Shimada
Maeley Tom
Steve Westly, represented by Karen Greene Ross

AGENDA ITEM 2 - APPROVAL OF FEBRUARY 2006 MEETING MINUTES

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** that the February 14, 2006 Open Session minutes be approved as presented.

AGENDA ITEM 3 - ELECTION OF CHAIR AND VICE CHAIR

Ms. Mathur nominated Mr. Valdes to Chair the Committee.
On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** that Mr. Valdes be elected Chair of the Investment Committee by unanimous ballot.

Ms. Mathur nominated Mr. Diehr to Chair the Committee.
On **MOTION** by Mr. Quevedo, **SECONDED** and **CARRIED** that Mr. Diehr be elected Vice Chair of the Investment Committee by unanimous ballot.

AGENDA ITEM 4 – Calpers Total fund Quarterly Report

Andrew Junkin and Michael Schlachter, Wilshire Associates, presented the Executive Summary of the Investment Performance quarterly report for the period ended December 31, 2005. The performance of each asset class was reviewed and it was noted that energy prices were a driving force, this time driving the price of energy stocks and utility stocks down, the only sectors with negative returns during the quarter.

The Chair directed staff and Wilshire Associates to report back at a later time regarding possible outcomes if the external domestic equity portfolio had been invested in the internal passive portfolio.

The Committee accepted the information report.

AGENDA ITEM 5a – ASSET ALLOCATION, Investments in Commodity Futures

Patricia Pinkos, Senior Investment Officer, Richard Roth, Investment Manager, and Angela Lyons, Investment Officer, presented an educational overview of commodity futures, including background, rationale for investing in commodity futures, and proposed next steps.

The Chair directed staff to work with the Chair to schedule a Commodity Futures Workshop at a time that will allow participation of the newly appointed Chief Investment Officer.

The Committee accepted the information report.

AGENDA ITEM 6 - REAL ESTATE

There were no items to report.

AGENDA ITEM 7a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, Strategic Review Implementation Update

Leon Shahinian, Senior Investment Officer, presented a quarterly update regarding the implementation of the action plan for the seven key findings of the strategic review.

Allan Emkin, Pension Consulting Alliance, was available to respond to questions from the Committee.

There was discussion regarding filling personnel vacancies, monitoring fund-to-fund costs, and consideration of changes to the delegated authority.

The Committee accepted the information report.

AGENDA ITEM 8a – GLOBAL EQUITY, Permissible Equity Market Investment Analysis Update, including ADRs and GDRs Analysis

Permissible Equity Market Investment Analysis Update

Roz Hewsenian, Wilshire Associates, reported that since the posting of the Permissible Equity Market Investment Analysis Exposure Draft at the end of January, the Philippines and South Africa had filed remonstrations by the March 2 deadline and that Taiwan submitted a remonstration after the deadline. All the countries scored above the 2.0 threshold in the 2006 Exposure Draft so there will be no changes to the Permissible Country list. The final report will be presented at the April Committee meeting.

ADRs and GDRs Analysis

Christy Wood, Senior Investment Officer, provided a staff analysis of investing in American Depository Receipts (ADRs) and Global Depository Receipts (GRDs) from non-permissible equity markets that trade on the exchanges of permissible equity markets.

The Chair directed that an action item regarding this issue be scheduled at a future date subsequent to the appointment of a new Chief Investment Officer.

The Committee accepted the information report.

AGENDA ITEM 8b - GLOBAL EQUITY, Review of Internal Relational Program

Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item. At the direction of the Committee, staff presented a comprehensive review of the Program and requested input from the Committee on a proposed expansion of the current policy parameters for the Program.

Peter Mixon, General Counsel, Roz Hewsenian, Wilshire Associates, and Allan Emkin, Pension Consulting Alliance, were available to respond to questions from the Committee.

There was discussion regarding legal risks, insider trading issues, and consistency and uniformity of asset class delegations and policies.

The Chair directed that revisions to the Internal Relational Program be put over until appointment of a new Chief Investment Officer and that in the interim staff bring back co-investment opportunities on a case-by-case basis.

The Committee accepted the information report.

The meeting recessed from 10:55 a.m. to 11:10 a.m.

AGENDA ITEM 8c – GLOBAL EQUITY, Corporate Governance Core Principles and Guidelines Revisions

Christy Wood, Senior Investment Officer, Dennis Johnson, Senior Portfolio Manager, and Bill McGrew, Portfolio Manager, presented the item. Staff requested Committee approval to amend CalPERS' Principles in order to support proxy voting execution in the upcoming 2006 proxy voting season.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to approve amending the CalPERS' Corporate Governance Core Principles and Guidelines to:

- 1. Add Appendix D to reflect executive compensation provisions that should be addressed when companies design executive compensation policies, and that section C.3. be revised further to state "Equity grants should vest over a period of at least three years, unless staff determines in its discretion that under all the circumstances the vesting period should be longer."
- 2. Add a sub-section labeled Audit Integrity and one related principle to address shareowner ratification of the independent external auditor.
- 3. Add a sub-section labeled Corporate Responsibility and one related principle to address environmental disclosure.
- 4. Revise the sub-section labeled Shareowner Rights to reflect proxy votes cast (as opposed to total proxy votes) in the application of CalPERS' majority vote principles.

AGENDA ITEM 8d – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group Update

Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item.

- 1. SEC Rule on Executive Compensation staff outlined proposed comments and suggested additions and modifications that will be submitted to the SEC.
- 2. March 2006 Council of Institutional Investors Meeting Agenda staff reported that there will be a separate CalPERS Federal Workshop and a CalPERS/CalSTRS Ceres breakfast at the conference.

AGENDA ITEM 8e – GLOBAL EQUITY, Corporate Governance Environmental Strategic Plan Update

Christy Wood, Senior Investment Officer, Winston Hickox, Consultant on Environmental Initiatives, and Kelly Forrest, Investment Officer, presented the item.

An implementation update was provided on the four initiatives of the Corporate Governance Environmental Strategy and participation in the Investor Network on Climate Risk (INCR) including the INCR Call for Action.

The Committee accepted the information report.

AGENDA ITEM 9a – GLOBAL FIXED INCOME, Currency Strategic Plan

Curtis Ishii, Senior Investment Officer, and Eric Busay, Portfolio Manager, presented the item. Staff presented the CalPERS currency vision for the future, which included plan outlines, currency's role in a portfolio, CalPERS currency experience, and an overview of active currency strategies.

Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

The Committee provided input regarding the proposed program. Staff will present an action item at a later date.

The Committee accepted the information report.

AGENDA ITEM 9b – GLOBAL FIXED INCOME, Member Home Loan Program Manager Annual Review

Curtis Ishii, Senior Investment Officer, and Mark Yelavich, Investment Officer, presented the item. Staff reviewed the performance of CitiMortgage as the mortgage loan master and servicer and manager of the CalPERS Member Home Loan Program (MHLP) since April 2003, and recommended extending their contract.

Dave Elder, interested party, commented regarding variable rate mortgages and competitive CalPERS' loans.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to extend CitiMortgage Inc.'s contract for a period of one year.

The Chair also directed staff to review issues raised during the discussion and report back to the Committee.

AGENDA ITEM 10a – LEGISLATION, SB 1207 (Alarcon) – Majority Vote in Uncontested Corporate Elections

Lisa Marie Hammond, Chief of Governmental Affairs, provided an analysis of SB 1207 and recommended a support position. This bill would establish that an approval by a majority of the shares represented and voting will be required to elect a director in an uncontested election of corporate directors.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve a strong support position of SB 1207 (Alarcon) as introduced.

AGENDA ITEM 11 - POLICY SUBCOMMITTEE REPORT

Anne Stausboll, Interim Chief Investment Officer, presented the item.

By consent the Committee approved the following:

- a. Equity Policy Revision of Domestic Enhanced Index Internally Managed
- b. Miscellaneous Policies Adoption of Glossary Terms Credit Accommodation and Credit Enhancement

AGENDA ITEM 12a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Anne Stausboll, Interim Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of January 31, 2006, was approximately \$207.2 billion and the total book value was approximately \$159.9 billion.

AGENDA ITEM 12b – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consideration of U.N. Environment Programme Principles for Responsible Investment

Anne Stausboll, Interim Chief Investment Officer, presented the item.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve becoming a signatory of the Principles for Responsible Investment.

AGENDA ITEM 13 – DRAFT APRIL 2006 AGENDA

The Committee accepted the proposed April 17, 2006 agenda.

At this point Mr. Hiber stated "that the Treasurer's representative will recuse himself from an item in closed session today because of a conflict of interest, consistent with Government Code 87100."

AGENDA ITEM 14 - PUBLIC COMMENT

There were no additional comments from the public.

The meeting was adjourned at 12:15 p.m.

The next meeting of the Committee is scheduled for April 17, 2006 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer